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Cultural Revolution Undermines Chinese Economy

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CULTURAL REVOLUTION UNDERMINES CHINESE ECONOMY

The Cultural Revolution has dislocated or threatened every sector of the Chinese economy, but it has been easier to identify trends than to measure actual losses. It is clear, however, that the modest momentum for growth nursed through recent years by comparatively pragmatic policies has been lost, and that the task of reorganizing the economy whenever the Revolution ends will be enormously difficult. It is also apparent that unless the government enforces edicts to control disorders, economic conditions can only grow worse.

Industrial output in 1967, assuming a continuation of present political trends, appears almost certain to be less than in 1966. The consequences are mitigated by the selective nature of the industrial disorders, which so far have been greatest in the least important industries while still apparently minor in the priority industries, especially those related to defense. As time goes on, however, even the priority industries will be increasingly affected as industries supplying materials and components become more and more tardy or derelict in their task.

In agriculture, China is only now beginning to face the consequences of the Cultural Revolution. By fortunate circumstance, the 1966-67 over-winter crop was growing well by January of this year when peasants were exhorted to join the Cultural Revolution. During the June-July harvest period, an intensive campaign to damp down temporarily "revolutionary" activities among peasants was apparently successful. Up to mid-September, there had probably been no important change in the amount of food available from domestic production and imports compared with the same period of 1966.

On the other hand, [redacted] reported difficulties in government procurement and distribution of food. Official pronouncements have lent credibility to these reports by hinting at troubles in "gathering the fruits of harvests into the people's hands," and at irregularities in the operation of food storage and distribution units. Difficulties seem to have come from the partial breakdown of authority over peasants, who try to keep as large a share of harvests for themselves as possible, and by persistent--if sporadic--transportation disruptions. 25X1

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Peking Shuns New Leap Forward

Credit for the continued though precarious viability of the Chinese economy through a year and a half of disorders must be given in large part to deliberate regime policy. The example of the 1958-59 Great Leap Forward and the subsequent economic collapse has probably been kept constantly in mind by some moderates in the leadership. From the beginning of the Cultural Revolution around mid-1966, this element has fought a persistent battle against the infringement of mass movements on economic work.

Until the turn of the year, directives from Peking--presumably inspired by moderates led by Chou En-lai--expressly prohibited workers and peasants from joining in or being disturbed by the agitation of the Red Guards who were then rampaging through the cities and clogging the transportation system. A People's Daily editorial of 6 September 1966 specifically noted that interference by "outsiders" in production units whose work process they do not understand could only cause harm.

Although this policy was reversed in late December - early January, when workers and peasants were encouraged to participate in the Cultural Revolution, moderates still managed to have production featured in directives as a joint goal with the Revolution, and to have the two run by separate leadership organs. Moreover, some measure of professional competence in economic management has been preserved by periodic calls to "treasure" the skills of industrial and commune cadres and to give them generous opportunities to "redeem mistakes." As in the period before the summer harvest, peasants are now being told to suspend political activities for the duration of the autumn harvest.

The worst mistakes of the Great Leap Forward have been avoided, such as abandonment of economic coordination and planning, complete substitution of political motivation for material incentives, and wasteful or harmful innovations such as backyard furnaces or thick planting and deep plowing. The Cultural Revolution has undermined the economy, however, by weakening Peking's leadership, the authority of cadres, and the discipline of all elements of the population with the possible exception of the armed forces. There has not been a single new departure in economic policy during the entire course of the Cultural Revolution, although many political policies have impinged on economic work.

The sensitivity to the dangers of a new leap forward has been reflected in the rarity of leap-forward - type exhortations and in the quiet perpetuation of the material incentive measures first adopted in the early 1960s to revive the economy from the aftermath of the leap forward. So far as is known, the regulations governing

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the agricultural work-point system, the payment of industrial wages, and the operation of private plots and private marketing activities have remained unchanged during the revolution.

Local zealots have occasionally published articles attacking material incentives in general ideological terms, but [redacted] rumored or actual revisions in incentive measures have, if anything, been fewer in 1967 than in 1966. In late 1966, a few statements appeared in press media on the inevitability of another leap forward or on a new leap in the making. Since that time, however, the subject has been broached only by a few local revolutionary groups whose zeal apparently outran national policy.

Industry

Industrial troubles have come predominately from violence between rival "revolutionary" groups causing worker absenteeism, transport stoppages, and loss of managerial efficiency. Peking has enforced special protection of priority production facilities against violence and contention. Chinese defense industries seem to be operating much as usual.

To a lesser extent, special protection has apparently also been extended to the core of large, modern civilian industries. [redacted] 25X1 25X1

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Even so, the large civilian plants have probably suffered to some extent from the general disorders. The construction of the imported plants in Lanchou has fallen as much as a year behind schedule because of irregular attendance by Chinese workmen as well as delays in the arrival of materials and components sent through the rail and air transport systems. 25X1 25X1

Chinese press reports state that the first party secretary in Anshan was removed from office and the city turned over to military control in August, tending to support wall poster reports that mass violence had closed down large portions of the Anshan Iron and Steel Works.

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Without more information, the losses to production by the large civilian plants cannot be estimated, but vital damage does

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not yet appear to have been done. Aside from the influence on the economy's prospects, the most important potential effect from loss of production by this sector would be in the supply of a number of products for defense programs. Special steels and other metals, electronics equipment, ingredients for explosives, cement, and high-quality lubricants are examples of items supplied to defense projects by civilian industries. The large industries produce only a few products that would significantly affect the daily life of the population in the short run.

Some of the cities with large civilian industries--Canton, Maoming, Wu-han, Lanchou, Fushun, Luta, Anshan, Cheng-tu--have been reported [redacted] to have been the scenes of mass shutdowns of industry. [redacted]

The mass shutdowns have hit hardest the small industries producing mostly consumer goods and simple industrial products. Work stoppages ranging up to weeks at a time have been reported. Where violence has not kept workers away from factories or created impossible work conditions, shortages of materials--especially coal--have forced cutbacks and closures. Moreover, worker discontent is likely to result from limitations in the supply of consumer goods. More importantly, however, the shutdowns of small plants will have far-reaching effects on worker income. [redacted]

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Agriculture

Compared with workers, peasants seem to have had fewer opportunities--and perhaps less inclination--to join "revolutionary" activities. According to the official press, some peasants have been "deluded" into participation in violence in nearby cities and into travels that have contributed to clogging of transport facilities. The majority of the peasants, however, have seemed more interested in exploiting the opportunities created by the Cultural Revolution for private gain, either by levying demands for extra grain and benefits, or by stepping up private cultivation and marketing of food at the expense of working on collective farms.

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Food production in 1967 has probably suffered little. The government has claimed a bumper summer harvest--the only major harvest so far this year--amounting to a ten-percent increase over its 1966 counterpart. On the basis of weather alone, and neglecting possible effects of the Cultural Revolution, the claim is plausible. The 1967 summer harvest would still only

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be average, however, since the 1966 harvest used for comparison was below average. [redacted] ration levels after the summer-harvest support the government's claim in that the levels are reported to be generally no lower than during 1966.

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The government has more to fear from procurement and distribution problems than from the quantity of food being produced. With strong political pressures to find success in every field of endeavor, Peking has not hesitated to claim successes in procurement. The latest, a broadcast of 25 August, claimed that nine provinces, including the country's five largest wheat producers, had overfulfilled state purchase plans and had put more grain into state granaries than they had from the 1966 summer harvest.

At the same time, however, official pronouncements have strongly hinted at procurement troubles. The press constantly attacks reactionaries for "sabotaging" procurement work by encouraging peasants to demand larger shares of harvests and handouts from government food stocks. In mid-July, the Ministry of Food complained in public that peasants were demanding more grain and were speculating in food, some of which presumably was withheld from normal state procurement and purchasing channels. [redacted]

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The government's ability to procure and distribute food in normal amounts will receive a severe test in a few months with the harvesting of the autumn grain crop. This harvest accounts for almost two thirds of the annual grain crop, and will require the procurement and transportation of perhaps 40 to 50 million tons to cities and food-deficit regions. Additional amounts will have to be procured and stored for other state purposes.

Further losses may be suffered by the government if, as seems likely, peasants who owe debts from past years--when state grain carried them through bad times--successfully resist

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repayment. There appears to be little chance that whatever pilfering from government grain stocks may have taken place during the Cultural Revolution can be made good by additional levies on the autumn grain harvest.

Transportation

By mid-September, disruptions to all forms of passenger transportation had become so common that in all likelihood no one anywhere at any given time could any longer be sure that service would be available or dependable. The transportation system, however, has far from closed down. The prevailing pattern seems to consist of assorted troubles ranging from delays to closures of particular transport lines for periods varying up to a few weeks at a time.

Transport disruptions, particularly in railroads, have been greatest during two periods in 1967. Permission for workers and peasants to join in "revolutionary" exchanges at the beginning of the year resulted almost immediately in overloading of transport facilities already burdened by traveling Red Guards. Peking placed a ban on "revolutionary" travels at the end of January to sort things out. A period of comparative order ensued, and lasted until approximately mid-May, when disruptions resumed.

There is undoubtedly a backlog of freight accumulated by this time, although it is not possible to estimate its size. Most reports of transport disruptions, due to bias in sources of information, refer to passenger transport, but freight transport failures have also been reported. Many small industries, for example, have complained of failure of needed coal to arrive.

The disruptions to freight shipments have probably been more extensive than these examples would suggest. The reporting on disruptions during January was also heavily biased toward passenger traffic, but Peking nonetheless issued an emergency order to clear up freight backlogs at the same time that it temporarily banned "revolutionary" travels. It is possible that with the current rash of disruptions dating back more than four months, even the larger industries have run down their stocks of materials and fuels.

The shipment of Soviet goods through China to North Vietnam has continued despite the disarray of the Chinese railroad system. The Soviets may have diverted the shipment of some civilian cargo to sea transport since 1966. It is not clear, however, whether this decision would have been forced by Chinese railroad problems or by political considerations.

Foreign Trade

Trade with every important partner has fallen off so far in 1967 and will probably continue to decline during the remainder of the year. The Cultural Revolution has heightened

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Chinese hostility to the outside world and ended many of the contacts with foreigners. There have been scattered incidents of violence with foreigners at home and abroad, and economic considerations have been sacrificed to political ones in trade decisions. This xenophobia could cost China substantial benefits which foreign trade has brought to defense programs, food supplies, and technological knowledge.

Trade with Hong Kong has been allowed to fall off drastically since the second quarter of the year because of the campaign against the British authorities. Net earnings from the Hong Kong trade in July hit a monthly low of $21 million, a decrease of 45 percent compared with the same month in 1966.

Trade with Japan--China's largest free world trading partner--came to only $278 million during the first six months of 1967, about 13 percent less than during the first six months of 1966. The general political attitude toward Japan that has always been a major ingredient in Chinese trade decisions has altered recently with the expulsion of a large part of the Japanese press corps in China and violence between Chinese trade representatives and police in Japan. China has defaulted in some deliveries to Japan--for example, a 7,000-ton shipment of pig iron from the Anshan Iron and Steel Works--and has ordered the indefinite suspension of shipments of chemical fertilizers from Japan.

The growth in trade with Western European countries over the past several years has been halted during 1967 and dealings in some well-established categories of trade have been jeopardized.

Press reports indicate that the 1967 trade agreement with the Soviet Union calls for a lower level of trade than the $310 million reached last year. The Soviets have threatened to reduce trade further if the Chinese repeat the incident at Dairen in early August when the merchant ship Svirsk was damaged and its crew manhandled.

Trade statistics for 1967 so far have not revealed Chinese imports of the few industrial materials and the scientific apparatus--mostly measuring instruments--that have been contributing to the Chinese nuclear program. The Chinese Government has probably given special protection to this trade as it has to defense industries.

Since the withdrawal of Soviet technical assistance in 1960, China has had access to new industrial technology primarily through selective purchases of sample equipment and plants. As the incident with the West German firm illustrates, the current Chinese attitude toward the outside world has interfered in these purchases. A

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hiatus in the acquisition of new technology would not affect current industrial production, but would lower China's industrial prospects.

The Cultural Revolution has also affected the trade in food. During recent years, China has sold high-priced food and bought cheaper food, thus increasing the final amount available for feeding the population. The gain in caloric value from translating items such as rice into several times their nutritional equivalent in wheat has probably been indispensable for maintaining minimum ration levels for the growing population.

During 1967, the portion of the Chinese food trade involving Hong Kong has been undermined, although statistics are not yet available to measure the effect. Negotiations with Canadian traders for the customary last-quarter purchases of wheat have recently been canceled by the Chinese, who pleaded the "illness" of their negotiators.

Outlook

The process of economic deterioration started by the Cultural Revolution may well be checked if Peking is able to reimpose its authority. Planning and coordination have not yet been completely disrupted, as evidenced by continuing reports of industrial and regional meetings to map out current economic work. The professional cadres, although in possession of only part of their former authority, are still on hand. Production facilities, moreover, have suffered little physical damage.

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